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TO RUEHC/SECSTATE WASHDC IMMEDIATE 1593
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE
INFO RUCNIRA/IRAN COLLECTIVE PRIORITY
RUCNFRG/FRG COLLECTIVE PRIORITY
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

S E C R E T SECTION 01 OF 03 BERLIN 000884

SIPDIS, P, T, E, ISN, NEA, EUR, EEB
TREASURY FOR EDDY AND KOHLER
LONDON FOR GAYLE, PARIS FOR JORDAN, ROME FOR
ROSENSTOCK-SILLER

E.O. 12958: DECL: 07/02/2018
TAGS: [EFIN](#) [ECON](#) [KNNP](#) [PARM](#) [PGOV](#) [PREL](#) [MNUC](#) [IR](#) [GM](#)
SUBJECT: GERMANY/IRAN - FINANCE MINISTRY VIEWS ON UNSCR
1803, BANK MELLI, EUROPEAN-IRANIAN COMMERCIAL BANK, AND BHF
BANK

REF: A. BERLIN 796
[1](#)B. BERLIN 664

Classified By: EMIN Robert A. Pollard for reasons 1.4
(b) and (d).

[1](#)1. (S) SUMMARY: A German Finance Ministry official confirmed that the EU-3 and Italy had put forward a draft Common Position calling for expansive implementation of UNSCR 1803. The draft Common Position includes a Franco-German proposal to establish an EU-wide mechanism against proliferation finance based on the FATF model. The primary obstacle to quick adoption of the Common Position is many smaller member states' preference for narrow implementation of UNSCR 1803. The EU's June 23 designation of Bank Melli had immediate effect in Germany. The Bundesbank has established a permanent presence in the bank. Although the bank is technically still open, only transactions to cover the banks's operating expenses are permitted. Although German financial regulators have little leverage over the new Tehran Branch of the Hamburg-based European-Iranian Commercial Bank (EIHB), regulators are working to establish specific compliance systems and independent "firewalls" to guard against the risk of money laundering and proliferation-related transactions. According to the official, the Finance Ministry has no information indicating Germany's BHF Bank is actively or wittingly involved in facilitating proliferation-related transactions. German regulators are satisfied that the bank is sufficiently "sensitized" to the risks of its Iran-related business and that the bank is taking appropriate action in this regard.
END SUMMARY.

[1](#)2. (S) Emboffs met July 2 with Finance Ministry Director for Terrorism Finance and Money Laundering Michael Findeisen (PLEASE STRICTLY PROTECT THROUGHOUT) to discuss EU implementation of UNSCR 1803, German action in the wake of the June 23 designation of Bank Melli, the opening of a branch of the Hamburg-based, wholly Iranian-owned European-Iranian Commercial Bank (Europaeisch-Iranische Handelsbank AG, or EIHB) in Tehran, and the role of Germany's BHF Bank in facilitating euro-denominated transactions for Iranian banks, including the Central Bank of Iran.

UNSCR 1803 IMPLEMENTATION

[1](#)3. (S) On EU efforts to implement UNSCR 1803, Findeisen confirmed that the EU-3 and Italy had overcome the Slovenia's resistance to tabling a draft Common Position (CP) on the last day of the Slovenian presidency. In response to a question, Findeisen reported that the Franco-German proposal to assign lead responsibility for financial vigilance to each member state's Financial Intelligence Unit -- following the

FATF model on terrorism finance -- had been included in the draft text. Findeisen said it was not clear why the UK had unexpectedly reversed its position on the proposal (see ref A).

14. (S) Findeisen noted that the primary obstacle to quick adoption of the CP will be persuading smaller member states, especially Spain and Greece, which seem to "fear" the growing influence of larger member states. Findeisen noted that (unspecified) smaller member states were "shocked" by the draft CP's expansive interpretation of 1803 and that many continue to insist on a narrow interpretation that transposes 1803 word-for-word into EU regulations. Findeisen said there had been "surprising opposition" from Netherlands. He speculated that this was for logistical, not political, reasons. He noted that the Netherlands had previously opposed the Third European Commission Directive on Money Laundering because of concerns that the Dutch FIU did not have the legal competence to fulfill the directive. (NOTE: MFA contacts have downplayed the Dutch "opposition", characterizing the Dutch as proposing an alternative wording due to relatively minor technical issues.) Findeisen expressed optimism about the prospects for winning over smaller member states, but suggested the E3 1 need to find a way to integrate smaller member states into the process at a much earlier stage "next time." (NOTE: MFA contacts have said that the EU3 Italy began actively demarching selected EU Member State capitals about the need for fast action on the Common Position proposal.) Findeisen said it is clear that financial sanctions have started to have an effect on Iran, "especially in the Gulf."

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BANK MELLI

15. (S) Findeisen said the EU's June 23 designation of Bank Melli goes far beyond the "proactive measures" put in place by the Finance Ministry and the Federal Financial Supervisory Authority (BaFin) in May in anticipation of EU designations (ref B). Findeisen noted that the EU designations had immediate effect in Germany and were automatically transposed into German law. He reported that the German Bundesbank, which has responsibility under German law for implementing financial sanctions, now has a permanent presence in the Bank Melli's Hamburg branch and is providing notifications to the UNSC sanctions committee. Although the bank is technically still open, it is only allowed to pay employee salaries, utility bills, and other operating expenses. No other transactions are permitted. According to Findeisen, Bank Melli Hamburg management has filed a formal legal complaint against the EU measures and intends to keep the branch open despite the fact that it has been frozen out of the German financial system.

EUROPEAN-IRANIAN COMMERCIAL BANK (EIHB)

16. (S) Emboff asked whether BaFin had given further consideration to the idea of conducting a "fit and proper" review of EIHB's Iranian shareholders, specifically Bank Mellat. Findeisen said BaFin and Finance Ministry officials had indeed discussed possible additional steps German regulators could take to protect against money laundering, proliferation finance, and other abuses of the financial system. Findeisen said BaFin is more concerned about the risks posed by EIHB's Tehran branch than about the "shareholder problem." He explained that BaFin is working to assess how and to what extent the branch is controlled by the parent bank's management in Hamburg. Findeisen stated that the Finance Ministry and BaFin agree that "specific measures" -- measures that would apply to the branch itself -- are needed. Although it is normally sufficient to put in place measures (e.g., compliance systems) for the entire bank (including branches), specific measures are needed in this case because of the lack of adequate legal measures in Iran against money laundering. Findeisen cited the recent IMF

report criticizing Iran for failing to take appropriate action against money laundering.

¶7. (S) Findeisen said BaFin would like to set up independent "firewalls" to ensure that illegal money is not channeled into Germany (or the international financial system) via EIHB's Tehran branch. He said BaFin plans to conduct a special audit, after which BaFin would require the parent bank to establish a specific audit system for the branch. "This will be a complicated process," Findeisen conceded, particularly because Iran and Germany do not have an MOU that would permit BaFin to conduct audits and site visits at EIHB's Tehran branch. Findeisen reiterated that Germany does not have the legal authority to close the branch, "but we do not want to wait for violations -- we need proactive measures."

BHF BANK

¶8. (S) Emboffs noted that Treasury Secretary Paulson and Treasury Deputy Secretary Kimmitt had raised concerns that Germany's BHF Bank continues to facilitate transactions for Iranian firms and banks, including the Central Bank of Iran. Findeisen said it was no surprise that BHF had moved in to "fill the gap" after other major German banks (Deutsche Bank, Commerzbank, and Dresdner Bank) had pulled out of Iran. Findeisen said the Finance Ministry had anticipated such a development at the time Deutsche Bank pulled out of Iran. He stated that the Finance Ministry has no information indicating BHF is actively or wittingly involved in facilitating proliferation-related transactions.

¶9. (S) Although BaFin has not conducted any special audits of BHF, Findeisen said he had repeatedly expressed such concerns with BHF's compliance and reporting officer. Findeisen said his BHF contact had offered assurances that the bank has adequate systems in place to protect against money laundering. The bank is "sensitized" and very active in this regard, Findeisen said. Findeisen conceded that this was not always the case, and noted that BHF's core management had been sacked in mid-1990s after German regulators levied administrative fines for poor anti-money laundering practices. Since then, Findeisen said, BaFin has applied

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pressure to increase the bank's protection against money laundering. As a result, the bank now has a better understanding of how to counter money laundering more effectively.

¶10. (S) Findeisen noted that BHF is in a different position than Deutsche Bank, Commerzbank, and Dresdner Bank had been, primarily because BHF is no longer active in the U.S. market. As a result, the bank does not have significant concerns about jeopardizing access to the U.S. financial system. He also noted that BHF's Iran-related business is a "niche market," but one that is not necessarily profitable for the bank.

TIMKEN JR